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C O N F I D E N T I A L SECTION 01 OF 02 ANKARA 001378

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TAGS: [ENRG](#) [EPET](#) [TU](#) [IZ](#)
SUBJECT: RUSSIA,S GROWING INTEREST IN TURKISH ENERGY

Classified By: Economic Counselor Dale Eppler for reasons 1.4 (B) and (D)

11. (C) Summary. According to the local press and commentators, the July 18 visit of Gazprom Deputy CEO Alexander Medvedev signified warming relations between Turkey and Russia on energy issues. The jury is still out on whether Medvedev's proposals for further access to Turkey's market or his nods to Turkey's pet projects like the Samsun-Ceyhan oil pipeline will amount to anything. However, Turkey is dependent on Russia for over 60% of its gas and 40% of its oil supply, so there is good reason for Turkey to seek continued cooperation. Russia is also frustrated by Turkey's state-controlled gas market which has impeded market access for new players including one partially owned by Gazprom. End summary.

Are Relations Warming?

12. (U) In a statement to the press, Gazprom number two Alexander Medvedev expressed Russian interest in joining two ambitious but stalled Turkish pipeline projects: the Samsun-Ceyhan oil pipeline (never mind that Gazprom is a gas company doesn't work in the oil business) and Mediterranean Stream (multi-layered oil, gas, electricity, water, fiber optic pipeline to Israel). After the press conference, former Ministry of Energy Undersecretary Yurdakul Yigitguden said Russia and Turkey had entered a new, warmer period in their relations. Yigitguden also cited Turkish Foreign Minister Babacan's February 20 visit to Moscow where he proposed that Russia join Nabucco as further evidence.

Medvedev Proposals to Strengthen Russia's Market Share

13. (C) According to Ministry of Energy International Relations Department Head Cigdem Hatunoglu, Medvedev made other proposals to Energy Minister Guler including:

- capacity expansion of Blue Stream;
- renewal of the 6 bcm West Line gas contract, which expires in 2011;
- Gazprom's purchase of the gas distribution networks of large Turkish cities;
- buying a 1 bcm gas storage facility under construction at

Tuz Golu.

Of these projects, arguably the most important for Turkey is the renewal of the West Line contact. It is not clear whether Gazprom's strategy might include linking renewal of the contract with access to additional facets of Turkey's gas market. Hatunoglu said nothing was agreed during the visit.

¶4. (C) In a separate conversation, Faruk Demir, an informal advisor to Minister Guler, told us that Russia was also was interested in doing a gas swap between Iran and Turkey. Under this scenario, Turkey would agree to sell the Iranian gas contracted to Turkey (currently 6 bcm, plateau level 10 bcm) to Russia and in return, Russia would provide gas to Turkey in the same quantities. The advantage for Turkey is that if Iran cuts supplies in the winter, as it has for the last several winters, Russia would not interrupt Turkey's supply. (Comment: It is not clear how such a deal benefits Gazprom; perhaps there is a price arbitrage between Iran and Europe. End comment.) Demir didn't think Guler was considering the swap proposal seriously. He also said Russia is interested in buying the license for South Pars block that currently belongs to Turkey.

Medvedev Complains about Turkey's Gas Market

¶5. (C) According to BOTAS CEO Saltuk Duzyol, the primary reason for Medvedev's visit was protecting Gazprom assets in Turkey. Gazprom owns 40% of Bosphorus Gas (BG), a company that participated in the first and only gas contract release held

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by BOTAS. In 2005, BG bought the right to import 750 million cubic meters of gas and sell into the Turkish market. However, thus far, it hasn't succeeded in selling one molecule of gas and its price is not competitive in the Turkish market. In general, Russian gas is some of the highest priced in Turkey. The Ministry of Energy claims that the gas price in Turkey is an average derived from prices of various importers. However, the GOT also regulates the end user price and, since BOTAS is a state-owned company, some analysts believe BOTAS sells gas at a loss or subsidizes prices. Because of that, BG can't compete. Duzyol said Medvedev urged Energy Minister Guler to liberalize Turkey's gas market.

Turkey Needs Russian Resources

¶6. (U) Turkey depends on Russia for more than 60% of its natural gas supply. Turkey also increased its oil purchases from Russia by 30% from 2006 to 2007, making Russia the top crude oil exporter to Turkey as of 2007. That year, Russia provided Turkey almost 40% of its total oil supply. Russian commercial interest in Turkey appears to be strong. On July 28, Turkey's Regulatory Authority announced its approval of LukOil's acquisition of Akpet, a fuel distributor. Lukoil's acquisition included almost 700 gas filling stations (roughly 5% of Turkey's downstream market) and five LNG storage tanks.

¶7. (C) Comment: At this point, comments about Russian-Turkey energy relationship warming appear to be more hype than substance. However, Turkey's reliance on Russia for oil and gas, combined with Russian interest in expanding its market share could lead to increased Russian presence in Turkey's energy sector.

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